

**OFFICE OF THE WASHINGTON STATE
LIQUOR CONTROL BOARD
Board Meeting/May 24, 2000**

The regular meeting of the Washington State Liquor Control Board was called to order at 9:30 a.m., Wednesday, May 24, 2000 in the Board Conference Room, 3000 Pacific Avenue Southeast, Olympia, by **Chairman Eugene A. Prince**. **Board Member Kathy Kreiter** was present. Meredith Morton, Assistant Attorney General was also in attendance. Mollie Timm, Confidential Secretary to the Chairman, transcribed the recorded minutes.

Board - Approval of Minutes: Approval for the Board meeting minutes May 2, May 3, May 16, 2000 was requested. Board Member Kreiter moved the Board approve the minutes stated, Chairman Prince seconded, and the motion was carried.

Retail Services - Lease Renewal, Store #019, Clarkston:
Suzanne Lewis; Property Specialist.

The lease for Store No. 019, located at 541 Third Street, Clarkston, will expire on October 31, 2000.

The Lessor, James Albright of Copeland and Albright, has proposed a ten (10) year lease renewal in our current 2,783 square foot space. The new rental rate will be \$2,520.00 per month, or \$10.87 per square foot per year, effective November 1, 2000.

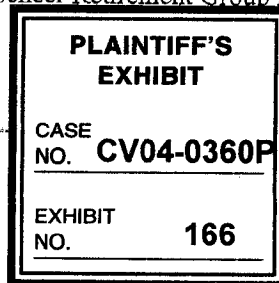
The Lease may be terminated by either party with a six (6) month written notice from the first of the month following. If the Board terminates the lease, the remaining portion of the then unamortized improvement costs, based on an initial amount to be determined, will be due the Lessor. If the Lessor terminates the lease, a payment of \$15,000.00 to help defray moving expenses will be due the Board.

The Lessor has agreed to all requested repairs and improvements, including new office, conversion of old office to a lunchroom, and remodeling of the restroom to meet ADA specifications. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

Board Member Kreiter moved for approval, Chairman Prince seconded and the motion was carried.

Retail Services - Relocation, Store #099, Issaquah):
Suzanne Lewis; Property Specialist.

The lease for Store No. 099, located in Heritage Square at 710 Gilman Blvd, Suite D105, Issaquah, has been terminated by the Lessor, Spencer Retirement Group Ltd, effective September 30, 2000.



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Staff has found a new site, located in Town and Country Square at 1175 NW Gilman Blvd, Suites B-17, 18, & 19, in Issaquah. The Lessor, Issaquah Associates, John Y. Sato, General Partner, represented by Vic Loehrer, has proposed a ten (10) year lease in a 4,707 square foot space. The new rental rate will be \$6,864.38 per month, or \$17.50 per square foot per year, during the first 5 years, and \$7,452.75 per month, or \$19.00 per square foot per year, during the second 5 years. It is anticipated that the space will be ready for fixtures by approximately early to mid August, 2000.

The lease may be terminated by either party with a six (6) month written notice from the first of the month following. If the Board terminates the lease, the remaining portion of the then unamortized improvement costs, based on an initial amount of \$78,000.00 at 10% interest, will be due the Lessor. If the Lessor terminates the lease, a payment of \$15,000.00 to help defray moving expenses will be due the Board.

Board Member Kreiter moved for approval, Chairman Prince seconded, and the motion was carried.

Purchasing Services - Potential Proof Reduction - Monarch Triple Sec:

Gary Thompson; Deputy Director, Purchasing.

The supplier of Monarch Triple Sec is requesting a proof reduction on this product from 34 proof to 30 proof effective July 1, 2000.

The Federal Excise Tax savings to the supplier on the proof reduction is as follows:

Size	34 Proof Case Cost	30 Proof Case Cost	Case Cost Change	Case FET Savings to Supplier	34 Proof Retail	30 Proof Retail
1.75 L	\$26.85	\$26.13	\$.72	\$1.50	\$13.95	\$13.75
750 ml	\$23.00	\$22.28	\$.72	\$1.29	\$ 6.00	\$ 5.90

The supplier is passing on a portion of their Federal Excise Tax savings to the consumer by lowering the retail price. We currently have two other Triple Sec 750 mls listed at 30 proof. I recommend that the Board approve the supplier's request for a proof reduction on Monarch Triple Sec from 34 to 30 proof. We will post signage in our retail outlets notifying our customers of the proof change and corresponding retail price reduction.

Board Member Kreiter moved for approval of the supplier's request. Chairman Prince seconded, and the motion was carried.

Wine Program - Potential New Listings:

Steve Burnell; Wine Program Manager.

The Wine Advisory committee has reviewed the following wines. Criteria for selections

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made by this panel include outstanding taste, good value, consumer interest and other factors. From blind tastings, the following selections and recommendations were made by the Committee and the Purchasing Division. I recommend the Board approve the following listing actions.

Wine	Region	Vintage	Retail	Recommendation
Romanelli Chianti	Italy	1998	\$ 4.99	List as M
Villa da Filicaja Chianti	Italy	1998	\$ 6.25	List as M
Chateau St. Jean Chardonnay	CA	1998	\$11.61	List as M
Chateau St. Jean Merlot	CA	1997	\$19.99	List as M
Canyon Road Cabernet Sauvignon	CA	1997	\$ 6.98	List as M
Canyon Road Merlot	CA	1997	\$ 6.98	List as M
Canyon Road Chardonnay	CA	1998	\$ 6.98	List as M
R.H. Phillips Cabernet Sauvignon	CA	1997	\$ 7.49	List as M
R.H. Phillips Chardonnay	CA	1998	\$ 7.49	List as M
R.H. Phillips Merlot	CA	1997	\$ 7.49	List as M
R. Mondavi Coastal Merlot	CA	1997	\$ 8.99	List as M
R. Mondavi Coastal Zinfandel	CA	1998	\$ 8.99	List as M
Wild Vines Blackberry Merlot	CA	NV	\$ 3.49	List as M
Wild Vines Raspberry Zinfandel	CA	NV	\$ 3.49	List as M
Gran Oristan	Spain	1992	\$10.67	List as M

The following wines are offered as a One-Time-Only purchase. The purchasing department and I recommend the Board approve the following One-Time-Only listings.

Wine	Region	Vintage	Retail	# of Cases
Mezzacorona 2Pk-Merlot & Pinot Gris	Italy	1998	\$ 6.48	480 cases
Canoe Ridge Red Table	WA	1998	\$15.39	56 cases

The following wines are offered with limited case availability. The purchasing department and I recommend the Board approve the following wines for "U" code listing.

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Wine	Region	Vintage	Retail	# of Cases
Neil Ellis Sauvignon Blanc	S. Africa	1999	\$ 9.96	18 cases
Saintsbury Pinot Noir	CA	1998	\$20.98	14 cases
Hedges, Red Mountain Reserve	WA	1997	\$36.78	20 cs6/pk
Judd's Hill Cabernet Sauvignon	CA	1996	\$47.87	6 cases
Rombauer Cabernet Sauvignon	CA	1997	\$29.98	4 cases
Rutherford Grove Cabernet Sauvignon	CA	1997	\$30.66	2 cases
Rutherford Grove Merlot	CA	1998	\$26.95	2 cases
Rutherford Grove Chardonnay	CA	1998	\$27.28	2 cases
Duckhorn Cabernet Sauvignon	CA	1997	\$52.93	3 cases
Duckhorn Merlot, Three Palms Vyd.	CA	1997	\$62.39	2/6 pks
Duckhorn Merlot, Howell Mountain	CA	1996	\$55.30	2 cases
Duckhorn Merlot, Estate	CA	1997	\$70.15	1 cs6/pk
Bethel Heights Pinot Blanc	OR	1998	\$12.43	6 cases
Bethel Heights Pinot Noir, Freedom Hill	OR	1998	\$28.30	6 cases
Bethel Heights Pinot Noir, Lewman Vyd.	OR	1998	\$23.23	14 cases
Bollinger Grande Annee	France	1990	\$71.48	10 cs6/pk
Warre's Optima Tawny Port .500ml	Portugal	NV	\$18.99	6 cases
Mystic Merlot	OR	1995	\$18.99	14 cases

The following wines are currently listed by the Board. Based on the blind tasting OR other criteria I recommend the Board DELIST the following items:

Wine	Brand Code	Reason
Il Poggiolo Chianti	900667	Poor Sales/Price Increase
Querceto Chianti	343470	Poor Sales/Price Increase
Gabbiano Chianti Classico	342170	Supply Problems
Villa Mt. Eden Zinfandel, Grand Reserve	519420	Supply Problems
Columbia Crest Cote de Columbia	456610	Discontinued by Supplier
Mountain View Zinfandel	489250	Discontinued by Supplier
Franzia Colombard 5.0 Liter	566005	Discontinued by Supplier
Mouton Cadet	241070	Supply Problems
Buffalo Ridge Merlot	901106	Supply Problems
Lost Horizons Cab/Merlot	415200	Supply Problems

Note: All listings are 750ml size unless noted otherwise.

Board Member Kreiter moved for approval of the request, Chairman Prince seconded, and the motion was passed unanimously.

Information & Technology Services -Antivirus Software Upgrade:

Curt Secker; Director, ITS.

I request Board approval to upgrade 600 user licenses to the latest version of Norton Antivirus software and purchase an additional 300 new user licenses which will cover the entire Liquor Control Board. This request also includes the purchase of "Platinum Care"

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support from Norton that will automatically provide us with the latest antivirus files as they are identified.

This request would be worth approximately \$20,000. Funds are available in the Information Technology Services division operating budget.

Virus attacks have become common place and we need to protect the LCB's data investment. By upgrading licenses and selecting the Platinum Care support option the LCB is guaranteed of having the latest in antivirus protection without the need to access a Web site on a weekly basis for the latest protection files. I recommend Board approval.

Board Member Kreiter moved for approval of the request, Chairman Prince seconded, and the motion was carried.

Financial Division - FY 2000 Supplemental Budget:

Rob Kirkwood; Budget Officer.

I am here to request your approval for the FY 2000 Supplemental Budget as outlined below:

FY 2000 Supplemental Budget included \$812,000 in "Efficiency Cuts" for the Liquor Control Board:

\$793,000 from Other Funds (Liquor Revolving Account)
3,000 from Fiscal Year one General Fund - State
<u>16,000 from Fiscal Year two General Fund - State</u>
\$812,000

The proposal is to take the cuts as follows:

\$793,000 from Retail Division (surplus appropriation authority)
3,000 from Enforcement Division (reduce equipment)
<u>16,000 from Enforcement Division (reduce equipment)</u>
\$812,000

Chairman Prince - Have you discussed this with all of the affected people?

Rob Kirkwood - Yes. The initial efficiency savings came out in the Governor's Budget, so there was some discussion as far back as December. I have also communicated with Rick Phillips yesterday.

Board Member Kreiter moved for approval of the FY 2000 Supplemental Budget. Chairman Prince seconded the motion, and it was carried.

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Enforcement & Education - Board Discretionary Funds for Prevention Summit:

Manuel Romero; Alcohol Awareness Program Manager.

I would like to make an official request for \$25,000 from the Washington State Liquor Control Board's discretionary funds to support the "2000 Prevention Summit" to be held in October in Yakima, Washington.

Board Member Kreiter moved for approval of the request, Chairman Prince seconded, and the motion was carried.

Public Hearing - Proposed Rules Regarding Beer/Wine Tax Reporting and Payment:

Teresa Berntsen; Rules Coordinator.

The Washington State Liquor Control Board is proposing revised rules regarding requirements for reporting and paying beer and wine taxes.

Governor Locke issued an Executive Order that requires state agencies to review all of their existing rules, as well as all policies that directly affect the public. The purpose of this review is for agencies to work with stakeholders to evaluate the effectiveness, clarity, fairness, and statutory intent of the agency's rules.

The proposed language regarding beer and wine tax payment requirements is a result of a review process by a Liquor Control Board process improvements team, the agency's licensees, and public participants.

Following is a summary of changes to the existing rules and policies. The proposed rules would:

- Move the beer tax liability from breweries to beer distributors, making this process consistent with wine tax collection. Currently, breweries pay the state tax on beer, and include this charge as part of the markup when the product is sold to a distributor. Under the proposed rules:
 - Beer distributors would pay the beer tax directly to the state, as opposed to paying the equivalent amount to the brewery in the form of product price markup.
 - Those distributors that carry wine products would submit their beer tax reports and payment at the same time they report and pay their wine tax.
 - The beer tax would be due 20 days after the end of the month in which they purchased the product (the same timelines that currently exist for wine).
- Revise the surety bond requirement from mandatory for all licensees with a tax liability to a requirement only for those consistently late in reporting and paying taxes; and
- Add an option for an assignment of savings account as an alternative to acquiring a surety bond.

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The Liquor Control Board process improvement team has streamlined the beer and wine tax reporting forms. The team reduced the number of forms by 35%, and made the remaining forms more user-friendly. The revised forms, which will be available once the proposed rules go into effect, will be in Excel format to file via e-mail or hard copy to send by standard mail.

The Board also continues to study the feasibility of creating an Internet-based filing system.

Phil Wayt; Executive Director, Washington Beer & Wine Wholesalers Association:

Thank you. Suffice it to say we have been at this discussion since at least 1997 with the Board as you have discussed it in various processes. I want to go on record as complimenting Board staff for allowing ample opportunity for stakeholder input as you have gone through this internal process, particularly Teresa Berntsen and Heidi Whisman who have worked very closely with us. We have recommended some changes and some of them have been adopted. Heidi did a great job of explaining what it does and our association supports the proposal. It just makes good sense for all of us in the industry. I brought three of my wholesalers who can comment on it and for two purposes: 1) So you can answer any questions they may have, and 2) To let you know I actually do have clients! So I will let them introduce themselves.

Fred Bevegni, Jr., President, Western Beer Distributors, Inc.:

Thank you. I am president of Western Beer Distributors, which is a distributor of Miller and Coors and some import products in Pierce County. I am located in Sumner and have been in business as a family since about 1951 - so basically, all my life, that is all I have known - is the beer and wine industry. I am also here to represent the Association and we have been working this issue since 1997 and we unanimously support this change. One thing that really has come out is the consistency with the wine and import beers. We have been doing this for quite some time with import beers. Another thing is that it eliminates the necessity of the surety bond. Also, it takes the payment from out of state (be it Milwaukee or St. Louis) to in state. It also reinforces the three tier system. So again, I urge the Board for your support.

Gigi Burke - Co-Owner; Crown Distributing:

Good morning. We distribute Anheuser-Busch products in Snohomish, Skagit, Island and San Juan Island counties. I am here to reinforce the revision as well. We feel strongly that it is simplifying the system, it is making it more efficient, it is reinforcing the three tier system (which we always want to). It is very good. We appreciate the Board's support on this issue and if there is anything we can do to be of assistance, please let me know.

Mike Bjerke; President; Black Hills Distributing:

Thank you for the opportunity to speak. I am here to support this proposal. I have the same sentiments as the previous speakers. Our company distributes beer, wine and import products and with this change it will make it very consistent within our operation to report our taxes. It simplifies and makes everything easier. Thank you very much.

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Stu Halsan; Coors Brewing Company:

Consistency is the important thing and we are very appreciative of the Board bringing this forward. Not only consistency internally in the state, but consistency externally as well. As a brewer, Coors very much appreciates and supports this rule change.

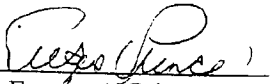
Retail Services - Browns Point Agency:

Jonathan Harkness; District Manager.

I am here to recommend the appointment of Frank Bushey as the agency vendor of Browns Point Agency which is an agency we operate between Fife and Federal Way. The current vendor, Ron Ayer is vacating his position effective June 15, 2000. Frank has made arrangements to secure a retail location and we anticipate closure.

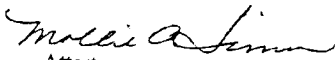
Board Member Kathy Kreiter moved to approve Frank Bushey as the agency vendor of Brown Point Agency. Chairman Prince seconded the motion and it was carried.

The meeting was adjourned at 10:00 a.m.


Eugene A. Prince
Chairman

Vera Ing
Board Member


Katherine Kreiter
Board Member


Attest

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